Kosovo

Banks that participated in the survey account for of 89 per cent of banking assets in Kosovo, the majority of them foreign owned (Chart 1).[1] While half of Kosovan banks expect no change to branch networks over the next five years, around a third expect branch networks to shrink. This is much lower than in south-eastern Europe (SEE) as a whole, where 56 per cent of banks, on average, expect branch networks to decline (Chart 2).[2]

When asked whether climate change risk was a part of their risk management, not a single bank in Kosovo said it was – the lowest share in the SEE economies. Only a small minority of banks say they have climate change policies and targets in place, around half the proportion of banks, on average, in the SEE and EBRD regions. However, nearly all banks surveyed in Kosovo say they have social policies and targets, while all have environmental policies and targets, ahead of the average shares across the SEE region.

In lending to small and medium-sized enterprises (SMEs), banks in Kosovo are roughly on par with the average in the SEE region when it comes to undertaking corporate governance, social and climate change impact assessments. However, they lag on environmental impact assessments (Chart 3). Only half of the Kosovan banks surveyed say they conduct environmental impact assessments before lending to SMEs, compared with 70 per cent of banks, on average, in the SEE and EBRD regions.

More than 80 per cent of banks provide loans for the specific purpose of improving the energy efficiency of residential housing, SMEs and/or corporate clients (Chart 4). Even on the provision of energy-efficiency loans for commercial real estate, Kosovan banks outpace the average of other SEE and EBRD economies, where just over half of survey participants provide such loans.

Chart 1 Branch presence of surveyed banks

Chart 2 Branch network expectations, next five years

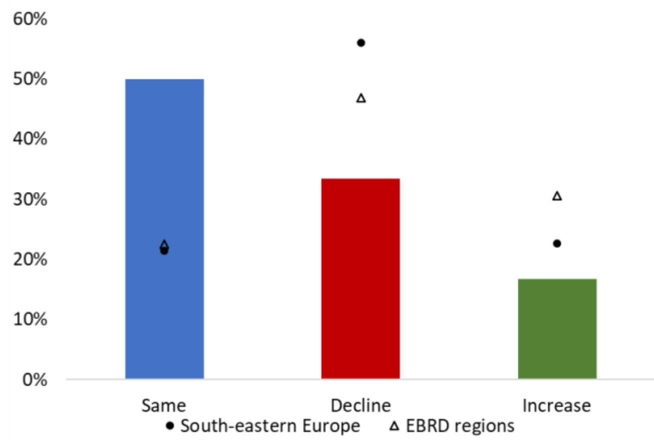


Chart 3 Impact assessment of SMEs before loan approval

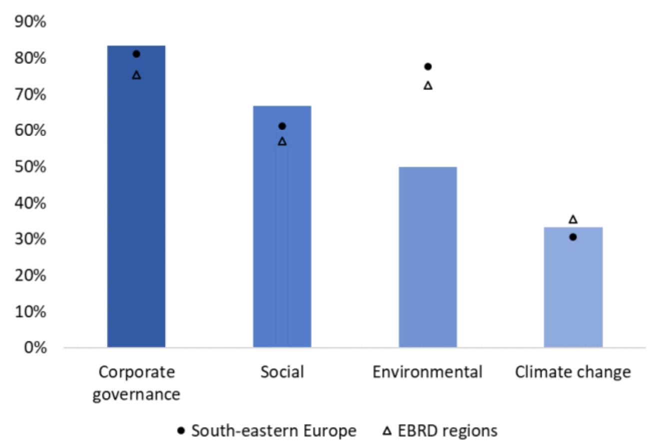
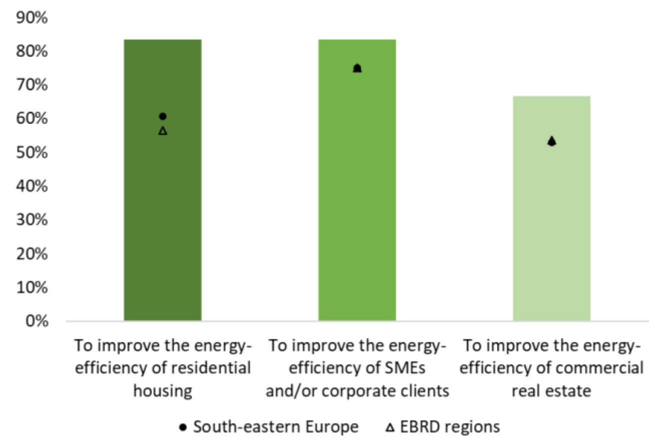


Chart 4 Prevalence of loans to improve clients' energy efficiency



[1] Foreign banks account for 84 per cent of banking assets in Kosovo.

[2] Bars in Charts 2, 3, 4, 7 and 8 refer to the percentage share of banks in Kosovo.

As far as the use of digital technologies is concerned, all participating banks in Kosovo see corporate lending as a business with the potential to gain from fintech, much more so than in the SEE and EBRD regions more broadly, where roughly two-thirds view fintech as an opportunity in this business category (Chart 5). At least half of the banks surveyed see fintech as an opportunity for SME lending, leasing, asset management and trading and sales. However, half of Kosovan banks also consider fintech to be a threat to asset management, while two-thirds of them view it as a threat to payment services.

Banks in Kosovo generally lag those in the SEE and EBRD economies when it comes to the uptake of digital technologies (Chart 6). The exception is in the use of cloud computing; one in three banks uses this technology commercially – roughly on par with the SEE and EBRD regions. Indeed, only a few banks in Kosovo have launched the use of digital wallet solutions or algorithms to improve credit decision-making commercially, while almost 40 per cent of banks in the EBRD regions report already using such technology.

This hesitancy to adopt digital technologies is reflected in banks' concerns about fintech. All banks in Kosovo say they are concerned about information technology (IT) security and regulatory uncertainty in the fintech space (Chart 7). Moreover, one in two say they have difficulties in identifying and establishing links with fintech companies, while only one in four banks cite this as a concern across the SEE economies, on average.

Insufficient demand for credit and a lack of sufficient collateral are the first and second most reported constraints faced by banks in Kosovo when lending to innovative research and development (R&D)-intensive industries such as IT, chemicals and pharmaceuticals (Chart 8). The share of banks seeing these as the main concerns is far higher than in the rest of the SEE or EBRD regions as a whole.

Chart 5 How fintech will affect banks' business lines

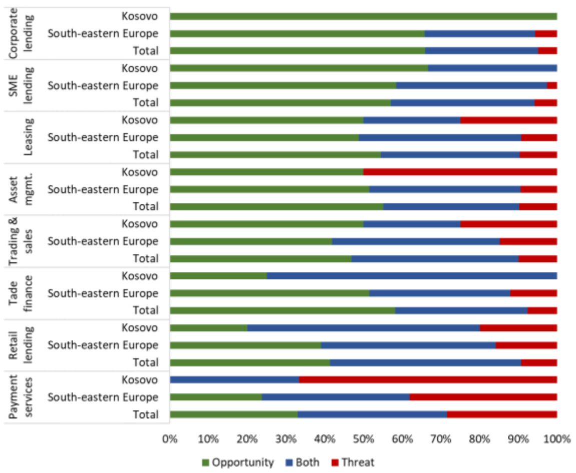
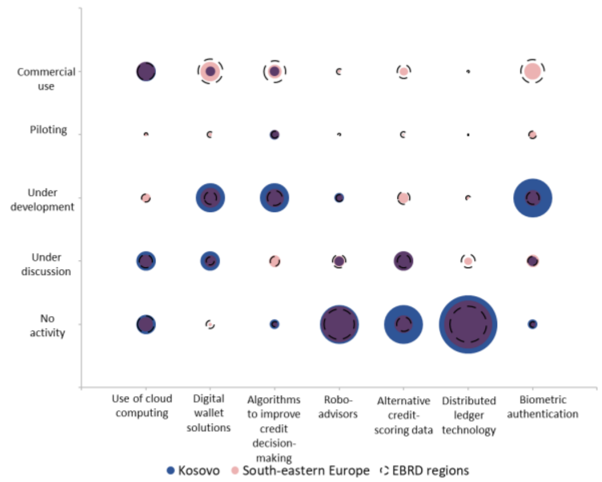


Chart 6 Digital technology development and use



Note: For each digital technology, the size of the bubble is proportional to the share of banks that report using the technology at that level of advancement.

Chart 7 Concerns related to digital technologies

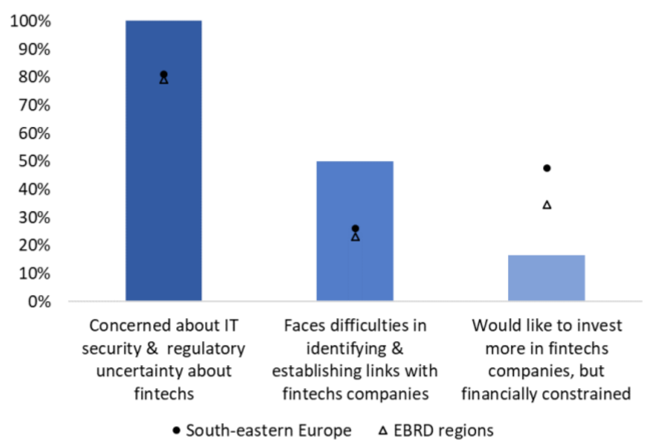


Chart 8 Constraints on lending to innovative industries